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OPEN MEETING FILE

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MEMORANDUM

Arizona Corporation Commission

DOCKETED

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2000 DEC 26 A 11: 25

TO: THE COMMISSION

FROM: Utilities Division

DEC 26 2000

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: December 22, 2000

DOCKETED BY

Jm

RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION TO AMEND AN ELECTRIC SERVICE AGREEMENT WITH PHELPS DODGE BAGDAD, INC. (DOCKET NO. E-01345A-00-1028)

On December 15, 2000, Arizona Public Service Company (APS) filed an application to amend an electric service agreement with Phelps Dodge Bagdad, Inc. (Bagdad). A redacted version of the amendment was filed in Docket Control. A complete version of the amendment was filed confidentially with Staff.

The original agreement was entered into on June 1, 1971. The agreement has been amended many times over the years. The most recent amendment was approved by the Commission on April 1, 1999 (Decision No. 61621). The agreement provides for APS to supply electricity to Bagdad for its copper mining operations.

The proposed amendment would allow APS to request Bagdad to interrupt power for any reason, although Bagdad would be under no obligation to accept the interruption. Approximately 50 MW would be available for interruption on one-hour notice. The actual amount of interrupted energy would be agreed upon by the parties at the time Bagdad agrees to be interrupted. There would be a minimum of four hours for each interruption, but there would be no maximum number of hours. APS would pay Bagdad a specific payment amount per MWh for all power interrupted.

The proposed amendment would be effective as of December 15, 2000 (amendment execution date), and continue until superceded by a subsequent agreement between the parties, anticipated to become effective on or before April 1, 2001.

Staff recommends approval of the amendment because APS would benefit by having the option to request an interruption in these times of short supply of generation capacity.

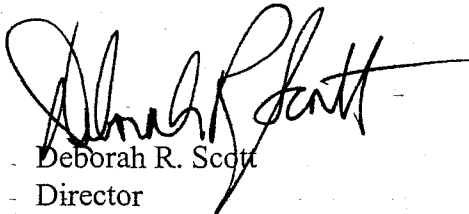
When considering whether to request an interruption, APS should consider other available options to obtain power at lower cost. Therefore, Staff recommends that if the cost of interrupting Bagdad appears in the test year data for a rate case, APS should be required to justify that each interruption was the most cost-effective option at the time of the interruption. Otherwise, shareholders may have to bear the cost.

THE COMMISSION

December 22, 2000

Page 2

In addition, Staff recommends that the Commission specify in its Order that approval of the amendment at this time does not guarantee any future ratemaking treatment of the agreement with the Bagdad.



Deborah R. Scott

Director

Utilities Division

DRS:BEK:lhml

ORIGINATOR: Barbara Keene

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 CARL J. KUNASEK

Chairman

3 JIM IRVIN

Commissioner

4 WILLIAM A. MUNDELL

Commissioner

5 IN THE MATTER OF ARIZONA PUBLIC)
6 SERVICE COMPANY - APPLICATION TO)
AMEND AN ELECTRIC SERVICE)
7 AGREEMENT WITH PHELPS DODGE)
BAGDAD, INC.)

DOCKET NO. E-01345A-00-1028

DECISION NO. _____

ORDER

8
9 Open Meeting
January 9 and 10, 2001
10 Phoenix, Arizona

11 BY THE COMMISSION:

12 FINDINGS OF FACT

13 1. Arizona Public Service Company ("APS") is certificated to provide electric service as
14 a public service corporation in the State of Arizona.

15 2. On December 15, 2000, APS filed an application to amend an electric service
16 agreement with Phelps Dodge Bagdad, Inc. ("Bagdad"). A redacted version of the amendment was
17 filed in Docket Control. A complete version of the amendment was filed confidentially with Staff.

18 3. The original agreement was entered into on June 1, 1971. The agreement has been
19 amended many times over the years. The most recent amendment was approved by the Commission
20 on April 1, 1999 (Decision No. 61621). The agreement provides for APS to supply electricity to
21 Bagdad for its copper mining operations.

22 4. The proposed amendment would allow APS to request Bagdad to interrupt power for
23 any reason, although Bagdad would be under no obligation to accept the interruption. Approximately
24 50 MW would be available for interruption on one-hour notice. The actual amount of interrupted
25 energy would be agreed upon by the parties at the time Bagdad agrees to be interrupted. There would
26 be a minimum of four hours for each interruption, but there would be no maximum number of hours.
27 APS would pay Bagdad a specific payment amount per MWh for all power interrupted.

28 ...

1 5. The proposed amendment would be effective as of December 15, 2000 (amendment
2 execution date), and continue until superceded by a subsequent agreement between the parties,
3 anticipated to become effective on or before April 1, 2001.

4 6. Staff has recommended approval of the amendment because APS would benefit by
5 having the option to request an interruption in these times of short supply of generation capacity.

6 7. When considering whether to request an interruption, APS should consider other
7 available options to obtain power at lower cost. Therefore, Staff has recommended that if the cost of
8 interrupting Bagdad appears in the test year data for a rate case, APS should be required to justify that
9 each interruption was the most cost-effective option at the time of the interruption. Otherwise,
10 shareholders may have to bear the cost.

11 8. In addition, Staff has recommended that the Commission specify in its Order that
12 approval of the amendment at this time does not guarantee any future ratemaking treatment of the
13 agreement with the Bagdad.

14 CONCLUSIONS OF LAW

15 1. APS is an Arizona public service corporation within the meaning of Article XV,
16 Section 2, of the Arizona Constitution.

17 2. The Commission has jurisdiction over APS and over the subject matter of the
18 application.

19 3. The Commission, having reviewed the application and Staff's Memorandum dated
20 December 21, 2000, concludes that it is in the public interest to approve the agreement.

21 ORDER

22 THEREFORE, IT IS ORDERED that the proposed amendment to the electric service
23 agreement with Bagdad be and hereby is approved.

24 IT IS FURTHER ORDERED that if the cost of interrupting Bagdad appears in the test year
25 data for a rate case, APS will be required to justify that each interruption was the most cost-effective
26 option at the time of the interruption.

27 ...

28 ...

1 IT IS FURTHER ORDERED that approval of the agreement at this time does not guarantee
2 any future ratemaking treatment of the agreement with Bagdad.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.
4

5 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION**
6

7 CHAIRMAN

COMMISSIONER

COMMISSIONER

8 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
9 Executive Secretary of the Arizona Corporation
10 Commission, have hereunto, set my hand and caused the
11 official seal of this Commission to be affixed at the Capitol,
12 in the City of Phoenix, this ____ day of _____, 2001.

13 _____
14 BRIAN C. McNEIL
15 Executive Secretary

16 DISSENT: _____

17 DRS:BEK:lh
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1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-00-1028

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